Hospital Payment Policy Advisory Council

DMAS Board Room
July 18, 2006, 1-3 PM
Minutes

Council Members:
Chris Bailey, VHHA
Don Lorton, Carilion
Richard Magenheimer, Inova
April Kees, JCHC
Michael Tweedy, DPB
Scott Crawford, DMAS
William Lessard, DMAS

Other DMAS Staff:
Pete Epps
Carla Russell
Steve Ford

Other Attendees:
Tammy Smith, RTD
John McCue, CG (Conference Call)
Joyce Hann, DPB

1. **Introductions**
   Members of the council and other attendees introduced themselves.

2. **Council Meeting Schedule**

   Bill Lessard gave an overview of the meeting schedule for the council. This meeting consisted of a review of the rebasing inputs and discussion of potential issues. A draft of the rebasing results will be presented at the next meeting in late August before the DMAS budget submission due in September. Future meetings may be scheduled to consider additional issues.

3. **Rebasing Effective SFY2008**

   a. **Inpatient Operating Rates**
      i. Description of Rebasing Process
      Bill Lessard listed the statewide operating rate per case, the DRG weights, the outlier threshold, and the psychiatric and rehabilitation per diem rates as the outputs of the rebasing process. Mr. Lessard noted that the budget exempted freestanding psychiatric facilities from the SFY 2005 rebasing because the rebased rates would have been lower than the current rate. Under current regulation, the freestanding psychiatric facilities would not be excluded from rebasing for SFY 2008.

ii. Base Year – Cost reports with PFYEs in SFY2005
Mr. Bailey inquired whether DMAS could use the most recent calendar year data rather than SFY 2005 data. DMAS explained that this is the most current data period that is available. VHHA indicated it would like to review the claims file.

iii. Ratio of Cost to Charges (handout)
Mr. Bailey and Richard Magenheimer noted that the ratio of cost to charges may not always be accurate in determining cost for all services because the portion of the charge related to capital cost can vary widely by type of service. The Council agreed that it would be difficult to come up with a more accurate method before the next rebasing and would require a regulatory change. DMAS presented a summary of the charges, operating costs, and cost to charge ratios for acute care, psychiatric and rehabilitation for each hospital, the ratio of cost to charge will be used in the rebasing.

iv. Charges used for rebasing
1. Acute care charges and cases
   Mr. Lessard presented a data validation document with the acute charges for each hospital that will be used in the rebasing.
2. FFS claims vs. managed care encounter data
   Don Lorton asked whether the data included the managed care claims. Mr. Lessard responded that the charges are FFS business only, but offered to research further HMO hospital data.
3. Psych and Rehab Charges and Days
   There was no additional discussion on the psych and rehab charges and days.

v. Calculation of Labor Adjustment Factor (2004 VHI data) and Medicare FFY 2005 Wage Indices (after reclassification)
DMAS presented the calculation of the labor factor. According to regulation, this is a statewide average. DMAS presented the list of Medicare wage indices that corresponds with the base year. Mr. Bailey expressed a preference for the use of a more current Medicare wage index file.

vi. Inflation Rates
Mr. Lessard introduced the draft inflation calculation for the rebasing. Mr. Bailey inquired about the company that provides the projections. Mr. Crawford stated that Global Insight produces the projections. If the future projections are different than the actual factors issued prior to the next fiscal year, the inflation factor is revised to reflect the actual inflation.

vii. AP-DRG Grouper, Version 23
Mr. Lessard stated that for the SFY 2008 rebasing, DMAS will use version 23 the most current version. The Council discussed the previous versions in effect and the problem of insufficient cases. In the event of insufficient cases, DMAS uses an average of the New York AP-DRG data and DMAS data to determine the weight.

viii. Alternative Groupers
There was no discussion about alternative groupers.

ix. Cost-center specific cost to charge ratios
Medicare will begin to use cost-center specific RCCs to rebase DRG weights. Mr. Crawford stated that the methodology was very complicated and could not be implemented in this rebasing year. VHHA representatives agreed to put off the discussion of cost-center specific RCCs.

b. DSH – Medicaid Utilization %
Medicaid utilization percentages for each hospital were presented. Hospitals must have Medicaid utilization equal to or greater than 15 percent to qualify for DSH. VHHA representatives questioned if outpatient utilization should be a factor in determining DSH. VHHA indicated that it wanted to continue discussion on this issue.

c. Medical Education
DMAS reviewed the methodology for IME and GME. Mr. Bailey requested a list of the IME and GME payments by hospital.

d. Capital
No comments.

e. Outpatient
Mr. Bailey expressed an interest in increasing reimbursement for outpatient hospital services as a percent of cost as well as increasing physician reimbursement. Hospital outpatient services are currently reimbursed at 80 percent of cost. VHHA is not interested in utilizing the Medicare APC reimbursement methodology.

4. Alternative Payment System Incentives (pilot options)

a. Episode of care payment structures
Mr. Bailey urged DMAS to consider alternative payment structures such as episode of care payment structures, case management, and pay for performance incentives as a way to use reimbursement to improve the quality of care.

5. Other Issues
Mr. Bailey mentioned that improving reimbursement for Critical Access Hospitals (CAH) is not very costly and worth looking into to assure access to medical services.

6. Next Steps
The Council agreed on the next meeting date of August 24 to discuss the preliminary rebasing results and any other issues related to rebasing.